

State Senator Mike Prusi's Capitol UPdate

April 2005



Welcome to the April 2005 edition of my Capitol Update E-Newsletter. I have appreciated the opportunity to represent you in Michigan's 38th Senate District, stretching from Ironwood to Luce County and from Copper Harbor to Menominee. Because it is difficult to get to all corners of the district regularly for in-person updates, I hope this monthly E-newsletter will keep you informed of the latest news from Lansing and how it will affect life in the U.P.

Lansing Update

MCCA Assessment

Numerous issues pertaining to the insurance industry and insurance rates have been at the forefront of the news in Michigan lately. The Governor's SBT proposal and her ban on the ability of insurance companies to utilize credit-scoring as of July 1, 2005 have created a considerable buzz within the media, the Legislature, and the general public.

However, probably the most controversial issue with regard to the cost of insurance in Michigan is the Michigan Catastrophic Claims Association (MCCA) assessment. The MCCA is an unincorporated, nonprofit association of all insurers engaged in writing no-fault auto insurance coverage in Michigan. The MCCA reimburses no-fault auto insurers for amounts paid on Personal Injury Protection (PIP) claims in excess of \$350,000. Personal Injury Protection pays benefits for accidental bodily injury arising out of ownership, operation, maintenance or use of a motor vehicle as a motor vehicle. The insurer bears the loss of the first \$350,000.

The amount of medical claims insurers must pay before they are reimbursed by the MCCA will increase to \$375,000 on July 1, 2005. The amount will gradually increase to \$500,000 over the next six years. After that, the amount will increase every two years by 6% or the increase in the consumer price index, whichever is less.

The owner of each insured vehicle in Michigan pays an assessment for administration and funding of the MCCA. The State of Michigan is not responsible for nor does it control or receive any of the assessment. The state also has no control of the management of the MCCA. A board of insurance company representatives administers the MCCA and sets the level of the assessment, which is not a set percentage. The MCCA's board annually establishes the amount of the assessment based on the estimated future liabilities.

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The MCCA recently approved an assessment for 2005 of \$141.70 per car and \$28.34 per historic vehicle, effective on June 30th. This reflects an increase of \$14.46 from the current 2004 assessment of \$127.24 per car. According to the MCCA, the pure premium (the actual cost for each vehicle to fund the MCCA pool) for 2005 is \$116.43. However, the assessment also includes a deficit adjustment of \$25.17 to recoup part of an estimated \$1.8 billion deficit due to decreasing investment returns and increasing medical and claims costs, which represent \$257 per insured car. It also includes a 10-cent charge for administrative costs.

Previously, the MCCA included a credit on the pure premium in an effort to reduce surpluses projected at that time which resulted in lowering the actual assessment. However, the surplus was exhausted in 2001, and a credit is no longer being provided.

MCCA & No-Fault Insurance

As the MCCA and no-fault insurance are closely tied together, I am also providing background information on how no-fault insurance led to the creation of the MCCA assessment.

Michigan adopted a no-fault system of auto insurance in 1973, and is currently one of thirteen states in the country operating under such a system. State law currently requires auto owners to include three basic parts in their no-fault policy: Personal Injury Protection, Property Protection, and Residual Liability Insurance.

Proponents of a no-fault statute contend that in its' absence, those with insurance would be forced to subsidize claims for uninsured motorists, as the company which insures one driver may be forced to pay a settlement to a driver without insurance. Michigan no-fault law guarantees your insurer will pay your medical bills only, and carries stiff penalties for residents who choose to illegally drive without insurance. Additionally, it provides protections for those insured in the case of an accident with an out-of-state driver. While some states such as Wisconsin can offer slightly lower premiums in the absence of no-fault statutes, the smaller pool of insured motorists and probability of litigation often offset any potential savings in the event of an accident.

It is important to note that most issues affecting no-fault also impact the MCCA, and vice-versa. MCCA was created by the Legislature in 1978 to provide a mechanism for Michigan insurers to obtain a form of re-insurance (unavailable to insurance companies at that time) to underwrite unlimited costs for severe injuries. Re-insurance is a method insurance companies employ to protect against the possibility of numerous multi-million dollar medical cases, causing them to either go out of business or raise premium rates to unacceptable levels. While Michigan provides unlimited benefits in the form of the MCCA assessment, in other states insurers often purchase expensive re-insurance policies that are passed on in the form of similar rate increases to their customers. Some have proposed placing a cap on lifetime benefits to reduce premiums. However, in the event

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of a disabling accident, such a change could result in a trade-off of reduced benefits for drivers.

Senate Dems Take Action

To address the overall issue of recent continual increases in the MCCA assessment, my Democratic colleagues and I have re-introduced a package of legislation to make the MCCA accountable to the public. This package would make the MCCA subject to the Freedom of Information Act, Open Meetings Act, appoint a member of the public to the MCCA Board, and require an annual audit of its' activities. I believe this legislation, which the Governor supports, will make the MCCA more accountable to all taxpayers.

Mike's Corner

Higher Minimum Wage

A recent study noted that forty percent of minimum wage workers are the sole breadwinners for their families. Additionally, if the minimum wage was worth today what it was in 1968, it would be set at \$8.50 per hour, rather than the current \$5.15 per hour. The real purchasing power of the minimum wage for working families is further eroded in every year that the federal government fails to enact even an inflationary increase. In fact, the minimum wage has not had an increase whatsoever for eight years, even given the robust economic times of the late 90s!

I believe every worker in Michigan should be able to live the American Dream in which hard work is rewarded with economic advancement. As such, I recently introduced legislation to tie yearly increases in the minimum wage to inflation. Additionally, I co-sponsored legislation that will increase the state's minimum wage incrementally from \$5.15 per hour to \$7.15 per hour over the next two years.

Eight years is far too long for inaction, and it is obvious that the federal government is not planning on acting any time soon to provide relieve for those working to make ends meet for their families. Under these proposals, workers who make minimum wage will use this extra money on necessities for their family—spending that money in their local community, not putting it away in savings accounts. In fact, raising the minimum wage by \$2 per hour will directly benefit at least 464,000 Michigan workers, or in every 6 workers statewide. For more information on these and other bills recently introduced to address the minimum wage in Michigan, I encourage you to visit www.higherminimumwage.com for more information.

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Contact My Office

I sincerely hope you found the information in this E-Newsletter interesting and useful. The Internet is a great way to keep in touch with the latest news in state government. Please feel free to contact my office if I can ever be of any assistance to you on a particular area of interest or concern.

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